

REUTERS
8 JANUARY 1983

WASHINGTON

The CIA today sounded a new warning to Western policy makers that it would be a mistake to underestimate the economic strength of the Soviet Union.

That is the principal message in previously secret CIA testimony to the Joint Economic Committee of Congress. The testimony was made public today.

"We do not consider an economic collapse -- a sudden and sustained decline in (the Soviet) gross national product -- even a remote possibility," testified Henry Rowen, chairman of CIA's National Intelligence Council.

It was the second report from the Central Intelligence Agency in the last two weeks that portrayed the Soviet economy as generally self-sufficient and growing, although at a slower rate than in recent years.

The views of the CIA's Soviet experts run counter to the publicized Reagan administration perception of the Soviet Union as militarily strong but an economic cripple.

Rowen acknowledged an "unusual amount of confusion" in official circles and among the public as to the strengths and weaknesses of the Soviet Union.

Western observers, he noted, have pictured the Soviet economy as deteriorating at a time of a rapid defense buildup despite the continued Soviet economic growth.

He did not mention a CIA analysis of the Soviet economy during the 1970's when the agency predicted Moscow would be a net oil importer, rather than exporter, in the 1980's.

In the last two years, the CIA has reversed itself on this point.

Rowen said the CIA believed the Soviet economy would be growing at a slow rate and predicted a growth of one to two per cent "for the foreseeable future."

Soviet growth averaged 4.6 per cent annually from 1950 through 1981, faster than the United States, which grew 3.4 per cent a year, according to the CIA.

Since 1978, however, there has been a steady slowdown in the Soviet Union's yearly growth with 1981 economic activity rising about 1.5 per cent. This pace has paralleled a slowdown in growth rates of Western industrial countries.

The Soviet slowdown reflects four consecutive poor harvests but the CIA notes industrial performance has been slack too.

Some retarded growth is from inefficiencies and bottlenecks in the Soviet system that even its new leader, Yuri Andropov, will not be able to change, according to the CIA.

Rowen said Andropov's succession to power did not alter the CIA's view of economic prospects in the Soviet Union.

He also commented that Andropov's remarks to the Soviet Central Committee suggest no significant change in economic policy, indicating a cautious approach to economic reform.

CONTINUED

In its generally cautious view of the economic future of the Soviet Union, the CIA believes that if Andropov introduces major policy changes the forecast of one to two per cent growth could be off the mark, Rowen said.

He said growth could be faster, for example, if the Andropov regime has good harvests, reallocates money from defense to investment and consumer demands and improves productivity and efficiency.

On the other hand, he said slower growth would follow bad harvests, accelerated defense spending or any active unrest among the Soviet people.

Of the possibilities for a marked slowdown in economic growth, Rowen said widespread unrest, as in Poland, would hurt economic production the hardest.

"However, we consider such an eventuality unlikely," Rowen said.

"It would probably require a steep and prolonged drop in living standards in the first instance," he added. "Large scale labor disturbances might also occur if Andropov pursued with excessive zeal his promised campaign to impose greater discipline in the work place."

The testimony was requested by Sen. William Proxmire, a Wisconsin Democrat, who said the CIA report showed "the Soviet Union is perhaps the most self-reliant industrialized nation."

The Soviet Union probably has more ability than any other nation to remain viable in the absence of imports because of its vast raw materials, he said.

The CIA testimony said expanded Soviet demands for agricultural imports were intended mainly to prevent a decline in meat consumption and were not essential to maintaining an adequate quantity of food.

Proxmire agreed with a basic theme of the CIA report that the Soviet economy was viable.

"One of the worst things we can do is to underestimate the economic strength of our principal adversary," he said in an introduction to the report.

The first CIA report on strong Soviet economic growth was issued on Christmas.

Rowen acknowledged an "unusual amount of confusion" in official circles and among the public as to the strengths and weaknesses of the Soviet Union.

Western observers, he noted, have pictured the Soviet economy as deteriorating at a time of a rapid defense buildup despite the continued Soviet economic growth.

He did not mention a CIA analysis of the Soviet economy during the 1970's when the agency predicted Moscow would be a net oil importer, rather than exporter, in the 1980's.

CONFIDENTIAL

3.

In the last two years, the CIA has reversed itself on this point.

Rowen said the CIA believed the Soviet economy would be growing at a slow rate and predicted a growth of one to two per cent "for the foreseeable future."

Soviet growth averaged 4.6 per cent annually from 1950 through 1981, faster than the United States, which grew 3.4 per cent a year, according to the CIA.

Since 1978, however, there has been a steady slowdown in the Soviet Union's yearly growth with 1981 economic activity rising about 1.5 per cent. This pace has paralleled a slowdown in growth rates of Western industrial countries.